UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL

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Before the

Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies

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Good morning Chairman Aderholt, Ranking Member Farr, and Members of the Subcommittee. I am pleased to testify about the highlights of the Office of Inspector General's (OIG) recent and planned audit and investigative work, as well as OIG's fiscal year (FY) 2015 budget request.

Despite the past year being a period of restricted resources, OIG continues to achieve substantial and far-reaching results that serve American taxpayers' interest in more effective government. In FY 2013, our audit and investigative work obtained potential monetary results totaling over $1.2 billion. We issued 54 audit reports intended to strengthen Department of Agriculture (USDA) programs and operations, which produced about $1.1 billion in potential results. OIG investigations led to 551 convictions with potential results totaling almost $122.7 million.[1]

These monetary results far surpass our annual budget. From FY 2006 to FY 2013, the potential dollar impact of OIG audits and investigations has totaled $8.5 billion, while our appropriations have been just $670 million. For every dollar invested, we have realized potential cost savings and recoveries of about $12.62. This figure does not capture the significant, but less easily quantified, results of our efforts to improve public safety or implement program improvements.

After summarizing our most significant recent audit and investigative activities under our major strategic goals, I will conclude with a description of what OIG has done over the past several years to live within its budget constraints.

Before I do so, however, I would like to address one of the broader concerns facing USDA. In our work, we often find that the Department and its agencies need to focus more on how they monitor their programs and ensure that participants are complying with requirements. As we have identified in our 2013 *Management Challenges*, many USDA agencies place their primary focus on administering programs and providing benefits—often at the cost of designing sufficient controls to ensure that program funds serve their intended purposes. This problem cuts across USDA and has emerged in agencies in all Departmental mission areas.

[1] As established by Congress in the Inspector General Act of 1978, audit monetary impacts derive from funds put to better use and questioned/unsupported costs. Investigation monetary impacts come from recoveries, court-ordered fines, restitutions, administrative penalties, as well as other judgments.

While individual audits and investigations may bring to the fore problems specific to particular agencies and programs, USDA needs to prioritize compliance and monitoring as vital elements of proper program management. In this vein, OIG is evaluating the Farm Service Agency's compliance activities; a related project involves reviewing the Risk Management Agency's (RMA) national performance reviews and determining how useful they are in ensuring program compliance.

Goal 1—Safety and Security—Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources

To help USDA and the American people meet critical challenges in safety, security, and public health, OIG provides independent audits and investigations. Our work addresses such issues as the ongoing challenges of agricultural inspection activities, the safety of the food supply, and homeland security.

Investigation Leads to Judgment Against California Meat Packing Plant

In June 2012, two defendants entered into a settlement agreement to pay the United States over $304,000 and pay the Humane Society of the United States (HSUS) over $19,000. In October 2013, six defendants, including individuals and companies, entered into a settlement agreement to pay the United States approximately $2.7 million and pay HSUS approximately $112,000. In addition, one of the companies entered into a consent judgment in favor of the United States Government in the amount of $155 million. The settlements resulted from a *qui tam* civil complaint filed by HSUS in February 2008 against the company and its entities; the complaint prompted an investigation by OIG and the U.S. Attorney's Office for the Central District of California into allegations that a California company mistreated cattle destined for slaughter and adulterated meat, including some products distributed to the National School Lunch Program.

The Food Safety Inspection Service (FSIS) Needs to Ensure that Swine Slaughter Plants Follow the Federal Meat Inspection Act

FSIS inspects over 600 plants that slaughter swine, and our audit of plants subject to FSIS' enforcement found that the agency's actions do not deter swine slaughter plants from becoming repeat violators of the Federal Meat Inspection Act. As a result, plants have repeatedly violated the same regulations with little or no consequence. We found that, in 8 of the 30 plants we visited, inspectors did not always examine the internal organs of carcasses in accordance with FSIS inspection requirements, or take enforcement actions against plants that violated food safety regulations. As a result, there is reduced assurance that FSIS inspectors effectively identified pork that should not enter the food supply. Agency officials concurred with our recommendations.

The Agricultural Marketing Service (AMS) Needs to Ensure That Organic Dairy Cattle Have Appropriate Access to Pasture

OIG also conducted an audit of how AMS implemented the "access to pasture" rule as part of its National Organic Program (NOP). While the agency has generally implemented this rule successfully, we noted that NOP officials had not clearly defined how producers should demarcate herds of organic milk-producing cattle, which meant that some certifying agents treated organic dairy producers differently, allowing some to add cattle to organic dairy herds, when other agents would not. Because the regulations are not clear in defining herds of organic cattle, consumers may not always be receiving the high quality organic product they expect. We also noted that NOP needs to include organic feed brokers within the NOP certification process to ensure that organic feed is not commingled or contaminated. Finally, we found that smaller operations were often unaware of recordkeeping requirements of the access to pasture rule regarding livestock confinement, grazing, or the cattle's dry matter intake. AMS concurred with our recommendations.

Among other audits in process, OIG is evaluating how FSIS has implemented the Public Health Information System for Domestic Inspection (PHIS), and whether PHIS adequately addresses the agency's key mission elements.

Goal 2—Integrity of Benefits—Reduce program vulnerabilities and strengthen program integrity

One of OIG's most important goals is helping USDA safeguard its programs to ensure that benefits are reaching those they are intended to reach. Given the importance of the Food and Nutrition Service's (FNS) Supplemental Nutrition Assistance Program (SNAP)—its $86 billion in FY 2013 represents 56 percent of USDA's budget—OIG continues to direct a large percentage of its resources to combatting the trafficking of SNAP benefits. In 2013, OIG's combined audit and investigative work was selected for a Council of the Inspectors General on Integrity and Efficiency award for excellence. The award cited audit findings and criminal prosecutions resulting in more than $84 million in questioned costs, funds to be put to better use, restitutions, seizures, and other means, as well as FNS' agreement to 58 of OIG's recommended program improvements.

As a recent example of our investigative SNAP work, an employee of a Philadelphia supermarket who trafficked in SNAP benefits was sentenced to prison time, and was ordered to pay approximately $2.3 million in restitution. In California, a husband and wife who owned six stores that engaged in SNAP trafficking were sentenced to 40 months and 18 months in prison, respectively. They were also ordered to share in paying $6.5 million in restitution to FNS.

Working jointly with FNS, OIG has also developed a new approach, called the SNAP Initiative, which is a tool for further identifying and addressing fraud in SNAP on a multi-agency level. The initiative combines the resources, ingenuity, and prosecutorial efforts of local, State, and Federal law enforcement partners with the common goal of preventing and prosecuting SNAP fraud. This multi-step approach encourages guidance and identification of SNAP fraud offenders on both the retailer and recipient side of trafficking. A vital aspect of the initiative is prevention, to be achieved through community outreach and media efforts educating citizens and retail owners on Federal regulations concerning SNAP benefits. OIG is in the process of rolling out this promising initiative with FNS in 2014.

FNS Needs to More Closely Screen SNAP Retailers

Likewise, OIG audits have shown how SNAP may be improved to better serve its intended purpose. Recently, OIG reviewed how FNS authorizes retailers to participate in SNAP to determine if disqualified retailers were allowed to continue participating in the program. We found that FNS does not have clear procedures and guidance to carry out key oversight and enforcement activities to address SNAP retailer fraud, or adequate authority to prevent multiple instances of fraud—either by a particular owner or within a particular location. As a result, FNS does not consistently penalize retailers who illegally exchange SNAP benefits. From a sample of

316 locations, we found that FNS did not properly determine potentially $6.7 million in penalties, and authorized 51 ineligible store owners, who redeemed over $5.3 million in benefits since 2006. In addition, we identified 586 owners allowed to continue participating in SNAP at other locations after being permanently disqualified, and 90 retail locations that had two or more firms permanently disqualified. FNS and OIG agreed on 12 of 20 recommendations; however, further action from the agency is needed before management decision can be reached for the other 8 recommendations.

OIG also has several upcoming projects that will address food benefits. We are currently reviewing the National School Lunch/Breakfast Program to evaluate the methods FNS is using to lower the improper payment error rates for both programs. In a separate project, we are determining whether FNS and the State agencies responsible for administering SNAP have adequate controls in place to ensure that SNAP payment error rates are accurately determined and reported, appropriate actions are taken to reduce the error rates, and errors are timely corrected when detected. Finally, in a third review, we are evaluating the factors causing high average food costs reported for States participating in the Special Supplemental Nutrition Program for Women, Infants, and Children.

RMA Needs to Ensure That its Prevented Planting Provisions Do Not Discourage Farmers from Planting Crops

With approximately $4.6 billion in claims paid to producers who were prevented from planting from 2008 to 2011, RMA's prevented planting provisions offer another opportunity for USDA to achieve improved efficiency. OIG determined that RMA needs to improve the prevented planting provisions to be more cost effective; to encourage producers to plant a crop, where possible; and to make eligibility criteria more objective and clear. Specifically, we found that, out of concern for covering a producer's pre-planting costs in all cases, RMA set current prevented planting coverage levels above the percentages of guarantees that farmers needed to cover average pre-planting costs. As a result, by establishing coverage levels that provided over $480 million in potentially excessive payments, we believe that RMA inadvertently provided incentives to actively encourage prevented planting claims. Also, we found that loss adjusters did not fully document and support eligibility for over $43 million in prevented planting payments. RMA needs to improve its guidance to better hold approved insurance providers accountable, and prevent acres that are regularly too wet for crop production from receiving prevented planting coverage. The agency generally agreed with our recommendations.

Also in the area of farm-related programs, in December 2013, OIG concluded an investigation into a multi-year scheme to circumvent farm program payment limitations. As a result, three producers, collectively with several of their corporations and limited partnerships, signed a settlement agreement in which they repaid $5.4 million to the Government. Our investigation revealed that the three men (the principal owner of an Illinois farm, his son, and son-in-law) created limited partnerships with other individuals who did not have the financial means or ability to operate farming operations that would qualify for the program. During crop years 2001-2008, the three men participated in at least 17 limited partnerships for which they maintained full control and signature authority as general partners, even though, on paper, they held only a 2 percent or 4 percent share of each. The 17 limited partnerships received farm program payments of approximately $6.7 million.

Goal 3—Management Improvement Initiatives—Support USDA in implementing its management improvement initiatives

OIG works to aid the Department in improving the processes and systems it needs to function effectively. Notably, we have recently issued several reports intended to improve how USDA settles civil rights complaints and promotes foreign trade.

Efforts to Monitor Settlement of Civil Right Complaints

USDA continues its work concerning complaints filed by different civil rights groups. In response to requirements of the Claims Resolution Act of 2010,[2] OIG performed an audit of the *In re* Black Farmers Discrimination Litigation (known as *BFDL*) claims process. Our statistical sample of 100 randomly selected claims found instances where the arbiter had reached differing conclusions for claims that were essentially identical, allowed multiple claims for the same farmer, and approved ineligible claims. The arbiter and the claims administrator agreed with our concerns and took action to correct these issues and maintain the integrity of the process.

[2] Pub. L. No. 111-291, 124 Stat. 3064.

OIG is currently performing a review, at the Secretary's request, intended to determine if the claims review process for women and Hispanic farmers is adequate and functioning. OIG is also performing additional audit work on the adjudicated *BFDL* claims to determine if awards were granted to eligible claimants.

The Office of Advocacy and Outreach (OAO) Needs to Improve its Process for Selecting Outreach Candidates

OAO initially selected applicants to receive FY 2012 grants through the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program, even though these applicants may not have been the most meritorious and deserving candidates. OAO officials disregarded regulatory requirements and guidelines cited in the Funding Opportunity Announcement in making those selections. Also, they had no documentation to support their decisions and could not explain why some applicants that appeared more deserving were not selected to receive grant funds. OAO agreed with our recommendation to strengthen the selection process and re-selected applicants in a more impartial and transparent manner.

The Foreign Agricultural Service (FAS) Should Improve its Strategic Plan for Increasing Trade

A recent audit determined whether USDA and FAS have developed and implemented measurable strategies that are effectively promoting trade. We found that, although FAS recently updated its strategic plan to include measurable goals and objectives, these goals and objectives (which measure the dollar value of exports) do not present the whole picture of how FAS' actions are affecting the global market for American agricultural goods. FAS' measures are not outcome-based and do not show how the United States is performing in a given market compared to its competitors. OIG acknowledges that developing outcome-based performance measures for FAS' trade efforts is difficult, but we maintain that a change in U.S. market share is an outcome-based measure that would be of great use to policymakers. FAS generally agreed with our recommendations.

FAS Needs to Improve Controls Over Agricultural Aid to Afghanistan

After the U.S. Agency for International Development transferred $86.3 million to USDA for capacity-building activities in Afghanistan in 2010, OIG was required to monitor how these funds were used. A recent review found that senior managers at FAS were aware of general control weaknesses before first receiving the funding; nevertheless, FAS had not implemented performance monitoring plans for all projects until over 2 years after the first project began. Without adequate management controls in place, FAS cannot effectively monitor these projects and faces difficulty in providing adequate assurance that the funds are effectively accomplishing program goals. FAS agreed with all recommendations.

USDA Continues its Efforts to Improve the Reporting of Improper Payments and High Dollar Overpayments

OIG continues to aid the Department in its efforts to reduce improper payments as part of the Improper Payments Elimination and Recovery Act of 2010 (IPERA).[3] In our annual report on this topic, we found that USDA did not fully comply with IPERA for a second consecutive year. Although USDA made progress in improving its processes to substantially comply with IPERA, the Department was not compliant with several IPERA requirements. By taking more effective measures to avoid these noncompliances, USDA could have avoided approximately $74 million in improper payments by meeting reduction targets.

USDA has improved in its efforts to report high dollar overpayments, according to our annual report. OIG found that USDA reported more comprehensive information about high dollar overpayments than it did in previous years. Specifically, due to improved reporting oversight and processes, USDA reported 239 overpayments, totaling approximately $20.3 million in FY 2012. This represents an increase of 67 percent over the number of overpayments reported the previous year. However, we determined that the quarterly reports included errors and were published up to 102 days after the due date. Without accurate and timely reporting, the effects of USDA's actions or strategies to eliminate the errors causing high dollar overpayments are not fully known. USDA's Office of the Chief Financial Officer agreed with our recommendation.

[3] Pub. L. No. 111-204, 124 Stat. 2224.

The National Agricultural Statistics Service (NASS) Must Improve How It Releases Sensitive Information

OIG has also recently audited how NASS controls access to sensitive market data and whether information is being released according to established criteria. We found that NASS did not adequately enforce critical procedures and physical security measures meant to protect the security of NASS information. Notably, OIG was able to bring a cell phone into lockup and witnessed a reporter using an iPad during lockup, although these items are banned from NASS' facility. As a result, sensitive information could be compromised or leaked before its official release, which could adversely affect equitable trading in commodity markets. We concurred with the actions NASS has taken to address 14 of the 17 recommendations made in the report.

OIG conducts investigations of USDA employees alleged to have engaged in criminal activity. In November 2012, an official with Rural Development pled guilty to committing wire fraud by depositing $6.2 million in checks, issued by 10 water authorities and one electric authority, into a bank account for which he had the sole signatory authority. A joint investigation with the Federal Bureau of Investigation disclosed that the employee then transferred those funds to his personal accounts. The employee separated from Federal employment in January 2013. In March 2013, the employee was sentenced in U.S. District Court, Middle District of Alabama, to 60 months in prison. In June 2013, the man was ordered to pay $3.9 million in restitution to seven water authorities and one electric authority.

In other upcoming work that may be of interest to the Subcommittee, OIG is performing, at Congressional request, a review to determine the adequacy of USDA's management controls over the Department's Economy Act transfers and the collection and use of funds under Department-wide reimbursable agreements, commonly referred to as "greenbook" charges. Additionally, OIG is reviewing FAS' controls over private voluntary organizations, as well as developing a "lessons learned" report concerning our Recovery Act oversight.

OIG Cost-Saving Initiatives

In response to the budgetary constraints throughout the Federal government, OIG has streamlined its operations to create a leaner, more effective agency. In FY 2012, we conducted a functional analysis to ensure that OIG, as an agency, is appropriately positioned to continue to operate in the most efficient and effective manner. Based on this analysis and the limited FY 2013 budget, we took the following steps:

- reduced staffing through attrition;
- reduced leased office space and office structures;
- increased use of webinars, video, and teleconferencing to reduce travel costs;
- allowed employees to fill GS-14 and GS-15 positions without moving, which has reduced relocation costs; and
- shifted Investigations and Audit employees away from headquarters and to the field to carry out OIG's audit and investigative operations more effectively.

These steps enabled OIG to continue performing its oversight role despite the restricted budget.

Although OIG is presently functioning at its lowest level of staffing in its history, the increase in OIG's FY 2014 budget will allow us to provide more effective oversight of USDA programs. We thank the Subcommittee for providing these much needed resources. While we will continue to look for cost-saving opportunities, this year we will be able to fill some critical vacancies that will enhance our ability to deliver high quality products. We will also maintain and grow our employee expertise by providing mandatory training and development. Our FY 2015 budget request continues that trend by focusing resources on programs within the Department that are considered high-risk, and developing an innovative approach to enhance our audit planning and execution.

Thank you for inviting me to testify before the Subcommittee. I would be pleased to address any questions you may have about our work.